Manitoba

MANITOBA DEVELOPMENT CORPORATION

ANNUAL REPORT

MARCH 31, 1990

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MANITOBA DEVELOPMENT CORPORATION

June 25th, 1990.

Honourable J.A. Ernst,
Minister Responsible for the Administration
of The Development Corporation Act,
Room 358, Legislative Building,
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Ernst:

In accordance with the provisions of Part I and Part II of the Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1990.

Respectfully submitted on
behalf of the Board of Directors.

M.O. Taillieu

Marcel Taillieu,
Chairman.

18th FLOOR – ONE LAKEVIEW SQUARE, 155 CARLTON ST., WINNIPEG, MANITOBA R3C 3H8 FAX NO. ONLY (204) 947-2318
TELEPHONE (204) 949-1844

REPORT OF THE GENERAL MANAGER

The Manitoba Development Corporation (M.D.C.) continues to act as the administrator of Government loan programs and to collect loans made prior to 1977.

In addition, M.D.C. administers the ongoing portions of the sale agreement of the old Flyer Industries Limited to New Flyer Industries Limited that took place in July 1986. Most of the Flyer warranties have now expired with only three still remaining. We believe our books reflect an adequate provision for possible warranty costs related to these outstanding warranties. There are still several personal injury law suits in progress that will probably take 2 or 3 more years to finally resolve. We are expecting to successfully defend these claims. If, in any year, the Flyer costs exceed our operating profits, that net amount is recoverable from the Province.

In August of this year, the Manitoba Development Corporation and the Communities Economic Development Fund will formally separate. This separation will result in lower costs for M.D.C. in the final analysis but there will be severance costs that will reduce our profits for 1990/91.

The high interest rates that have occurred during the year have impaired our anticipated progress. You will note that our interest cost paid to the Province during the year increased by $222M, although some of the increase resulted from additional operating capital requirements. I am pleased to note our salaries and benefits have decreased by over 10% while our administration costs are less than 50% of last year. We expect with close monitoring that these costs will again reduce in the future.

During the year, we have experienced considerable book profits through warranties expiring without additional costs, or by the settling of warranties at cost less than we anticipated. As a result, we have an overall profit of $3,116,956.

As at March 31, 1990, M.D.C. administered a gross portfolio of $40,339,664. Salaries and administrative costs amounted to $550,190 or 1.4% of the gross portfolio.

It is our goal to be competitive with any other commercial collection service. At the present time, our costs, without consideration of interest paid, are 1.4% of our portfolio. It is our goal to reduce that percentage to less than 1.4% over the next 2 years. Of course, our revenue is mainly dependent on activities of the Department of Industry, Trade and Tourism.

Report of the General Manager (cont'd)

I would like to again express the Corporation's sincere appreciation to our Directors who have provided invaluable guidance through their rounded business experience. There have been several delicate negotiations during the year that needed all the available expertise of our Board. To close, I would like to express my sincere thanks to our staff who again have had to face some very difficult and unsettling times.

Respectfully submitted,

W.E. Chiswell, C.A.
General Manager.

June 25, 1990

DIRECTORS AND OFFICERS AT MARCH 31, 1990

BOARD OF DIRECTORS

Marcel Taillieu, Chairperson

Grace Gillespie, Vice-Chairperson

Lorette Courcelles

Arnold Morberg

Aaron Redekop

Eldon Ross

Lorne Sharfe

OFFICERS

W.E. Chiswell, General Manager

A.Y. Musgrove, Corporate Secretary

Touche Ross & Co.
Chartered Accountants
360 Main Street, Suite 2000
Winnipeg, Manitoba R3C 3Z3
Telephone: 204 942-0051
Telecopier: 204 947-9390

Touche Ross

AUDITORS' REPORT

To the Board of Directors

Manitoba Development Corporation

We have examined the balance sheet of Manitoba Development Corporation at March 31, 1990 and the statements of operations and deficit and changes in cash position and the schedules of loans receivable, equity investments, accumulated losses and net divestiture costs, and assistance granted or to be granted for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation at March 31, 1990 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
May 31, 1990

Touche Ross & Co.
Chartered Accountants

MANITOBA DEVELOPMENT CORPORATION
BALANCE SHEET
as at March 31, 1990
(with 1989 figures for comparison)

ASSETS

	1990		1989	
Current Assets				
Bank	$104,566		$83,466	
Deposits - Province	679,191			
Due from the Province (note 4)	32,374		53,200	
Accounts receivable	29,764		89,014	
Provision for divestiture recoveries (note 7)	1,033,791			
Total		$1,879,686		$225,680
Investment Assets				
Loans made prior to 1977	$6,024,113		$6,476,396	
Less: Allowance for loss	(200,337)		(150,000)	
Total		5,823,776		6,326,396
Asset Managed for the Province, Part II				
Loans receivable, Schedule 1	$15,734,951		$8,975,693	
Equity investments, Schedule 2	6,570,239		6,320,239	
Total		22,305,190		15,295,932
Fixed Assets				
Furniture and equipment, less accumulated depreciation of $69,995(1989 - $63,722)		45,146		45,991
TOTAL ASSETS		$30,053,798		$21,893,999

The accompanying notes are an integral part of these financial statements

Approved by the Board:

M. A. Faikin
Director

LIABILITIES

	1990		1989	
Current Liabilities				
Accounts payable	$70,053		$58,097	
Interest payable - Province			232,145	
Provision for divestiture Losses (note 7)			2,554,355	
Total		$70,053		$2,844,597
Other Liabilities				
Deferred revenue	$37,494		$13,500	
Accrued pension liability (notes 2 & 3)	198,000		98,000	
Total		235,494		111,500
Operating advances supplied by the Province , interest bearing		4,074,002		3,389,367
Funds provided by the Province, Part II		22,305,190		15,295,932

EQUITY

Equity				
Share capital,authorized and issued 50,000 shares at $100. each	$50,000,000		$50,000,000	
Deficit, Statement 2	(46,630,941)	3,369,059	(49,747,897)	252,103
TOTAL LIABILITIES AND EQUITY		$30,053,798		$21,893,999

MANITOBA DEVELOPMENT CORPORATION
STATEMENT OF OPERATIONS AND DEFICIT
For the year ended March 31, 1990
(with 1989 figures for comparison)

Statement 2

	1990		1989	
Part 1				
Revenue				
Loan interest and guarantee fees	$799,995		$765,056	
Cost recoveries (note 5)	176,967		250,695	
Total		$976,962		$1,015,751
Expenses				
Interest paid	$454,741		$232,145	
Salaries and benefits	417,348		466,099	
Administration	132,845		299,257	
Total		1,004,934		997,501
Operating (Loss) Revenue		(27,972)		18,250
Part II				
Interest earned for Province	$768,997		$575,775	
Interest reimbursed to Province	768,997		575,775	
Total		0		0
Net Operating (Loss) Revenue		(27,972)		18,250
Net divestiture recoveries, Schedule 3		3,144,928		229,398
Net Income for the Year		3,116,956		247,648
Deficit at the beginning of year		(49,747,897)		(49,995,545)
Deficit at the end of year		($46,630,941)		($49,747,897)

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
STATEMENT OF CHANGES IN CASH POSITION
for the year ended March 31, 1990
(with 1989 figures for comparison)

Statement 3

	1990		1989	
Cash provided by (used for)				
Operating activities				
Net Income for the year, Statement 2	$3,116,956		$247,648	
Items not affecting cash flow:				
Depreciation	6,273		5,244	
Allowance for doubtful accounts	50,337		50,000	
Accrued pension liability increase	100,000		98,000	
Deferred revenue increase	23,994	$3,297,560	24,767	$425,659
Loan Activities:				
Part I				
Loan principal payments	468,160		477,395	
Protective disbursements		468,160	(50,229)	427,166
Part II				
Loan principal payments	1,840,323		767,600	
Loans issued	(10,614,030)	(8,773,707)	(5,136,683)	(4,369,083)
Net change in provision for divestiture costs (note 7)		(3,588,152)		(5,830,831)
Net change in other non-cash balances:				
Part I	(835,181)		5,828,793	
Part II	(43,069)	(878,250)	(426,557)	5,402,236
Purchase of office equipment (net)		(5,422)		($12,195)
TOTAL		(9,479,811)		(3,957,048)
Financing activities				
Advances from the Province of Manitoba:				
Part I	684,135		(857,792)	
Part II	8,816,776	9,500,911	4,795,637	3,937,845
Decrease in cash		21,100		(19,203)
Cash at beginning of year, Statement 1		83,466		102,669
Cash at end of year, Statement 1		$104,566		$83,466

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
SCHEDULE OF LOANS RECEIVABLE
as at March 31, 1990
(with 1989 figures for comparison)

Schedule 1

Part II: (note 1)	1990	1989
Manitoba Industrial Opportunities and Business Support Programs	$23,805,879	$18,117,116
Other programs	2,661,850	3,030,333
	26,467,729	21,147,449
Less allowance for:		
Forgiveness	(8,442,327)	(10,937,756)
Doubtful accounts	(2,290,451)	(1,234,000)
	(10,732,778)	(12,171,756)
Net Loans Receivable	$15,734,951	$8,975,693

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
SCHEDULE OF EQUITY INVESTMENTS
as at March 31, 1990
(with 1989 figures for comparison)

Schedule 2

Part II:	1990	1989
A.E. McKenzie Co. Ltd.(at cost)	$12,154,000	$12,154,000
Less Capital restructuring	6,643,761	
	5,510,239	$12,154,000
Vision Capital Fund - Limited Partnership (at equity) (formerly Small Business Growth Fund)	1,060,000	810,000
Sub-Total	6,570,239	12,964,000
Allowance for losses - A. E. McKenzie Co. Ltd.		(6,643,761)
Equity investments, less allowance for losses, Statement 1	$6,570,239	$6,320,239

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
SCHEDULE OF ACCUMULATED LOSSES AND
NET DIVESTITURE COSTS OF FLYER INDUSTRIES (note 7)
As at March 31, 1990
(with 1989 figures for comparison)

Schedule 3

	Divestiture Costs		
	March 31,1989	For 1989/90	March 31,1990
Investment Losses:			
Write off of shares	$34,432,106		$34,432,106
Write off of loan receivable, March 31, 1986	7,280,874		7,280,874
	41,712,980		41,712,980
Less: Proceeds from sale of shares	(1,000,000)		(1,000,000)
Loss on investment	40,712,980		40,712,980
Acquisition Costs, July 15, 1986:			
Liabilities assumed	13,368,068		13,368,068
Less: Assets acquired	(12,905,144)		(12,905,144)
Loss on acquisition	462,924		462,924
Other Costs:			
Write down of assets to realizable value	4,667,926		4,667,926
Bank guarantees	19,959,399		19,959,399
Outstanding cheques	3,450,030		3,450,030
Warranty obligations	21,063,202	(3,184,789)	17,878,413
Fixed asset acquisitions	4,878,781		4,878,781
Write off of loans & interest	3,815,348		3,815,348
Purchase of minority shares	332,522		332,522
Severance payments & consultations	1,246,894		1,246,894
Insurance	500,999		500,999
Occupancy costs	292,953		292,953
Professional fees	620,009	70,869	690,878
Equipment removal	219,928		219,928
Inventory management	313,914		313,914
Sundry	333,090		333,090
	61,694,995	(3,113,920)	58,581,075
Less Other Proceeds:			
Sales of fixed assets	(3,323,000)		(3,323,000)
Proceeds from work-in-process	(3,016,890)		(3,016,890)
Lease proceeds	(1,368,733)		(1,368,733)
Sundry	(237,664)	(31,008)	(268,672)
	(7,946,287)	(31,008)	(7,977,295)
Net accumulated losses and divestiture costs of Flyer Industries Limited	$94,924,612	($3,144,928)	$91,779,684

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Report of Assistance Granted or to be Granted
for the year ended March 31, 1990

Schedule 4

UNDER PART II OF THE DEVELOPMENT CORPORATION ACT:

CANADA/MANITOBA TOURISM AGREEMENT PROGRAM

CH Inns & Suites Inc.-Conditional Forgivable Loan-Demand	$1,100,000

MANITOBA INDUSTRIAL OPPORTUNITIES PROGRAM

Boeing Canada Technology Ltd. -Loan -Interest- 10.625%- 10 year term	$7,200,000
Canital Granite Ltd.	
Loan -Interest -5year Crown Corporation Rate - 5year term	200,000
Western Combine Corp.	
Loan - Interest - 10 year Crown Corporation Rate - 10year term	2,000,000
Willmar Window Industries Ltd.	
Loan - Interest -Forgiven to 1995 then 10 year Crown Corporation borrowing rate - 9 year term	743,375
Vision Capital Fund Limited -Partnership Loan - Interest 5% -10 year term	30,000,000

MANUFACTURING ADAPTATION PROGRAM

Loans - Interest - Crown Corporation borrowing rate less 2% - 5 year term

Challenger Sportswear Inc.	$41,125
GIII Ltd. (Globe Bedding)	43,750
Heli-Fab Ltd. - Loan # 1	43,745
- Loan # 2	43,875
Mid-Canada Equipment Sales Ltd.	13,530
Monarch Plating Co. Ltd.	100,000
Rainbow Eavestroughing Ltd.	34,000
Schmidtke Millwork Ltd.	91,500
Wesley Industrial Machine Shop Ltd.	50,000
Yoram Ltd.	26,100

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Notes to Financial Statements
for the year ended March 31, 1990

1. **Nature of Operations and Economic Dependence:**

The Manitoba Development Corporation (the Corporation) provides loans and loan guarantees under Part I and Part II of The Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except since then, further guarantee and loan commitments have been made on the direction of the Province of Manitoba. The Corporation is dependent on the Province of Manitoba for its continued operations.

2. **Significant accounting policies:**

(a) Losses under Part I are charged against operations of the Corporation.When divestiture costs related to Flyer Industries Ltd. exceed operating profits, they are recoverable from the Province. Losses under Part II are the responsibility of the Province and are charged directly against advances received from the Province.

(b) The employees of the Corporation are not members of the Civil Service of the Province but they contribute to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. The current pension expense is determined on the basis of an actuarial valuation. In addition, the past service obligations are being charged to operations over a ten year period. Payments to pensioners are charged against the liability account.

(c) The Corporation is jointly administered with the Communities Economic Development Fund (CEDF). At the year end, common administrative expenses are reviewed and allocated between CEDF and the Corporation on a proportionate basis as ratified by the Boards of CEDF and the Corporation.

(d) Office furniture and equipment is depreciated at 10% on a straight line basis.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1990

3. Accrued pension liability:

During 1989, the Corporation changed its method of accounting for pension expenses and obligations. In fiscal years prior to 1989, the Corporation charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Corporation has recorded a provision to fund current service obligations and to fund past service obligations over a ten-year period. On the basis of an actuarial report, the unfunded liability amounted to $366,147 at December 31, 1989 ($412,320 at December 31, 1988). This change in accounting policy for pension expense and obligations has been applied prospectively and has resulted in an additional $198,000 being charged to operations in 1989 and 1990.

4. Due from Province of Manitoba:

The amount due from the Province represents the recoverable balance outstanding for costs or fees incurred by the Corporation on behalf of the following operations:

	1990	1989
The Pas Forestry Complex, (note 6 c)	$2,509	$10,335
Destination Manitoba	29,865	39,795
Manitoba Interest Rate Relief Program		970
Department of Cooperative Development		1,057
Manufacturing Adaptation Program		1,043
	$32,374	$53,200

5. Recoveries from the Province of Manitoba:

The Corporation is entitled to recover administrative costs for all Part II programs. During the year, the Corporation recovered costs for administering the following programs:

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1990

5.(cont.)

	1990	1989
Tourism Agreement	$11,600	$10,400
Destination Manitoba	$48,298	$49,211
Manitoba Interest Rate Relief Program	4,909	13,392
Manitoba Industrial Opportunities Program	103,166	167,013
Manufacturing Adaptation Program	8,994	10,679
	$176,967	$250,695

6. Contingent Liabilities and Commitments:

(a) Bank Guarantees, Part II:

The Corporation has provided guarantees under the Manitoba Industrial Opportunities Program as follows:

	1990	1989
Gravure Graphics Ltd.	$250,000	$850,000

(b) Commitments, undisbursed balances of approved loans:

Part II	1990	1989
Vision Capital Fund	$30,000,000	
Manitoba Industrial Opportunities Program	3,322,114	$4,285,806
Canada Manitoba Tourism Agreement	2,196,341	232,500
Manufacturing Adaptation Program	437,868	131,136
	$35,956,323	$4,649,442

(c) The Pas Forestry Complex:

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Province and the Corporation, the Corporation has a continuing responsibility to press and defend all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Province.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1990

6. (c) continued:
The remaining funds in the Receiver's accounts will be transferred to the Province when the Receiver settles all outstanding legal issues.

(d) New Flyer Industries Limited:

Under the terms of the Divestiture Agreement described in Note 7, the Manitoba Development Corporation is contingently liable for and the Province of Manitoba is ultimately responsible for a bank guarantee, performance bonds, litigation and other contingencies.

7. **Flyer Divestiture:**

On July 15, 1986, the Manitoba Development Corporation entered into an agreement with BV Carrosseriefabriek den Oudsten en Zonen by which the Corporation divested itself of its interest in Flyer Industries Limited. Under the terms of this agreement, the shares were sold to BV Carrosseriefabriek den Oudsten en Zonen for $1,000,000 and the Corporation contracted to receive certain revenues and pay certain costs as described in Schedule 3. The net divestiture cost and accumulated losses is estimated to be $106 million allocated as follows:

MDC Schedule 3	$91,779,684
Province of Manitoba	14,065,000
Total	$105,844,684

The net divestiture costs and accumulated losses of $91.779,684, related to the Corporation, are comprised of payments, net of receipts, to March 31, 1990 of $92,813,475 and a provision of $1,033,791 for future anticipated net recoveries. A summary of changes in the provision account is as follows:

Balance, March 31, 1989		($2,554,355)
Add:		
Reduction for payments (net of receipts)	$443,218	
Divestiture cost recoveries, Schedule 3	3,144,928	3,588,146
Balance, March 31, 1990		$1,033,791

8. **Comparative Figures:**

Comparative figures have been restated where necessary to conform with the 1990 financial statement presentation.The comparative figures presented in these financial statements were reported on by the Provincial Auditor